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OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 39
9 February - 15 February 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Chinese Nationalist repatriation of OKAMURA and other Japanese war criminals has aroused strong Chinese Communist resentment, in part because of the credence given rumors that Japanese troops will fight in China (p. 2).

US Secretary of the Army Royall believes that indecision over Japanese reparation payments is retarding economic recovery there (p. 2). The revelation of Japanese Communist participation in the USSR spy-ring may have an effect on present Party leadership (p. 2). The Communists have interpreted recent US withdrawal rumors as proof of their growing power, while other Japanese groups view the rumors with dismay (p. 3). Meanwhile, in a reversal of the expected course towards rightist coalition, the Democratic Party has refused a bid to merge with the Democratic-Liberals (p. 3).

In Korea, President Rhee is opposing the UN Commission on Korea's view that its first mission is to try for unification of the divided country. The National Assembly, meanwhile, has indicated its desire for continued US troop occupation (p. 4).

CHIANG Kai-shek, although "retired," continues to exercise considerable influence over Nationalist political and military affairs in China (p. 6). PAI Chung-hsi continues to vie for power in South China (p. 7). CHANG Chih-chung has reportedly resigned his position as a peace negotiator and will endeavor to set up his own regime in Sinkiang (p. 7).

Indochina's President Xuan is attempting to shore up his position in the face of a rising tide of opinion against him (p. 4).

Premier Phibul has made a gesture of reconciliation with ex-premier Pridi, in an attempt to consolidate Siamese anti-Royalist forces (p. 5).

UK forces have intensified the Malayan anti-terrorist campaign (p. 5).

UN Delegate Remulo appears to be bidding for the Philippine presidency (p. 6).

The marginal notations used in succeeding sections of this Weekly ("A", "B" or "C") indicate the importance of the items in B/FE opinion with "A" representing the most important.

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Chinese Communists oppose OKAMURA repatriation. Chinese Nationalist "B"
repatriation of ex-General OKAMURA and 259 other war criminals held in China--
on grounds that their capture by the Communists would constitute "double
jeopardy," has given the Chinese Communists an opportunity to embarrass SCAP
and the US.

OKAMURA, wartime commander of all Japanese troops in China, was known
as one of the "better generals," and was responsible for few atrocities. He
was particularly effective in devising counter-measures against Communist
guerrilla units. Arrested as a war criminal after VJ-Day, he spent a long
period "awaiting trial" in Nanking, during which time he served as advisor
to CHIANG Kai-shek and the Minister of National Defense. His trial, in
January, ended in acquittal. Among the rumors circulating after his repatri-
ation to Japan was one that declared he would confer with SCAP regarding the
employment of Japanese troops in operations against the Chinese Communists.

The Chinese Communists now demand that OKAMURA and the other 259 repatri-
ates be surrendered to them before any peace-talks begin, a request which
highlights their very real fear of future anti-Communist employment of Japan-
ese forces.

JAPAN

Reparations decision imperative. Japanese economic recovery is being seriously "B"
handicapped by Allied failure to reach a final reparations decision, according
to Army Secretary Royall. The Japanese Government is spending 221 million yen
a month to maintain and guard industrial plants earmarked for reparations,
Royall reports. Pending reparations decisions, moreover, Japanese industrial-
ists are forced to delay new financing and efficient plant integration. The
adverse effect of these factors on necessary rehabilitation of the Japanese
economy, in Royall's opinion, makes an early settlement of the reparations
question desirable.

JCP leaders named in USSR spy case. Disclosure of the Sorge spy-ring has "B"
implicated several leading Japanese Communist Party (JCP) politicians,
including ITO Ritsu, a member of the JCP Politbureau and Supreme Council and
#4 or #5 man in the Party, as well as NAKANISHI Ko, JCP member of the Diet's
Upper House.

The JCP has vigorously denied involvement of either NAKANISHI or ITO, in
accord with its line that the JCP is "independent" of the USSR. NAKANISHI's
connections with the Sorge ring appear to have been of so pro-Soviet a nature

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that his future within the JCP seems assured despite the undesirable publicity. ITO, however, is charged in the report with unintentional betrayal of the ring. The JCP will probably not forgive ITO's blunder, however unwitting, and his Party influence will probably diminish. ITO's failure to run in the recent general elections may be a significant indication of this diminishing influence.

Reaction to US withdrawal rumors. Reports that the US is reconsidering its "A" strategic position and obligations in Japan have brought mixed reactions. Japanese Communists at once put their own interpretation on the alleged proposal as implying SCAP recognition of its inability to curb Communist expansion, while non-Communist Japanese viewed the proposal with dismay, pointing out that a withdrawal would allow native Communists and the USSR to exploit Japan's unarmed condition. Premier YOSHIDA has declined comment other than to say, "impossible".

While the Japanese Government would like to see a reduction in occupation costs, which now consume roughly a third of the national budget, the last desired solution is withdrawal of US troops. Any feeling that the US has "written off" Japan in the event of hostilities, added to the shock of recent Chinese Communist victories, would boost Japanese Communist prestige as the party of the future among the large number of Japanese now fence-straddling.

Democrats refuse to enter conservative coalition. Democratic Party President INUKAI Ken has declined Premier YOSHIDA's offer to include Democrats in a coalition government of conservative parties. In rejecting the invitation INUKAI reneged on a previous arrangement with YOSHIDA involving allocation of cabinet posts to important Democratic leaders as well as eventual merger with the Democratic-Liberal Party. "B"

INUKAI, a proponent of merger, was compelled to reverse his position since the issue threatened party unity. Opposing INUKAI was former party president and ex-Premier ASHIDA Hitoshi, who, despite his indictment for connection with the political scandals that brought the fall of his government and his resignation of the party presidency, was re-elected to the Diet. The foremost advocate of "middle-of-the-road" policies in Japan, ASHIDA retained sufficient influence in party caucuses -- close to half the Party's Lower House delegates -- to block INUKAI's plan.

The Democrat's refusal to enter a coalition government in no way precludes successful legislative operations by the YOSHIDA government, which has a comfortable majority. Nevertheless, as an independent party the Democrats will continue to represent "a threat in being" around which opposition to the extreme conservative Democratic-Liberals may possibly be able to reconstitute a moderate regime.

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KOREA

Rhee opposes UN unification stand. A rift between the Republic of Korea's President Rhee and the UN Commission on Korea (UNCOK) may develop over the issue of unification. UNCOK clearly considers its first task to be assistance in unification of the divided country and intends to consult with Koreans both in the north and the south. Rhee, however, strongly opposes UNCOK's intent to make direct contact with northern Koreans or any other action that might be interpreted as according de facto recognition to the North Korea Peoples' Republic. Even in southern Korea, Rhee will probably ask that UNCOK consult only with officials of his government. Any such attempts to restrict UNCOK's activities will incur the resentment of UN delegates and reduce the psychological advantage afforded to the Republic of Korea by UNCOK's presence in Seoul. "B"

Meanwhile, the National Assembly has indicated its continued desire for US troop protection by the defeat, 96 to 35, of a resolution requesting withdrawal of US forces. Seventy-one signatures enough to bring the resolution to the Assembly floor were obtained before the voting but an impassioned plea by Rhee brought the measure's defeat. Rhee declared that US troops were present in Korea not of their own volition but at the request of the Republic, that they are needed for stability while Korean security forces are being strengthened and that they will depart willingly when requested.

INDOCHINA

Xuan attempts to tighten his control. In an effort to tighten his control and curb the rising sentiment against him, President Xuan of the Provisional Central Government of Vietnam has taken two significant steps since his return to Hanoi from France. First, he has reduced the autonomous Ministry of Information to the level of a publicity bureau, working directly through Xuan's office. The question of press censorship, a source of controversy between various officials of the Central Government, is behind this move. The amount of freedom to be allowed the Vietnamese press in respect to anti-French and anti-government criticisms remains unsettled despite President Xuan's action. "B"

In an attempt to check his loss of face caused by Bao Dai's invitation to Tran-van-Huu, Governor of South Vietnam, to discuss that state's status within unified Vietnam, Xuan has tried to take credit for having arranged Huu's trip to France. Both these moves have been interpreted as an effort to forestall Xuan's possible replacement by Huu, whose popularity has grown while Xuan's influence has proportionately declined.

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SIAM

Phibul paves way for Pridi reconciliation. Late political developments, highlighted by Prime Minister Phibul's recent broadcast, indicate the imminence of a possible agreement between factions of the "1932 coup d'etat" party. Phibul, leader of Siam's military faction, and ex-premier Nai Pridi, are the two most important figures of the civilian-military clique which in 1932 overthrew an absolute monarchy and established a constitutional one. Nai Pridi is presently reported to be ready to quit his self-imposed exile. Phibul's broadcast was remarkable for its conciliatory tone and probably represents abandonment of the regime's anti-Pridi propaganda line. Phibul stated that whether or not Pridi joins forces with him depends upon political circumstances as well as on Pridi himself. The Premier concluded with a promise to support any course of action which would unite Siam or prevent a national calamity. "B"

Since 1932, governmental control has rested in the hands of one or another faction of the "1932 coup d'etat" party, and despite political differences and schisms within the group, it has united to frustrate all Royalists efforts to regain political domination. The present incipient solidification of the group seems to be a repetition of this political pattern. The popularity of the semi-Royalist clique, which in November 1947 put Phibul into power, is rapidly waning. The increase of Royalist personnel in the government, and the obviously Royalist nature of the new constitution are also important factors underlying Premier Phibul's overture to the Pridi group. Phibul further finds himself no longer able to command undisputed loyalty from Army and Police commanders.

If Pridi and Phibul reach an agreement, it is likely that Pridi will emerge as the dominant political figure. In this case, Siam will probably experience a more effective and stable government, with increased orientation towards the US and greater participation in general Asian affairs.

MALAYA

British intensify offensive against bandits. Three developments last week indicate that the British are heightening their operations against terrorists. First, a British communique announced a joint Siamese-British strike against Communists along their mutual border, described as the biggest thrust since the beginning of the terrorist uprising in Malaya. Strong Siamese police and Army columns are operating on the north side of the border, with British forces in action in adjacent north Kedah. "B"

Second, the government has stated that it will not tolerate "the sustenance or succoring" of bandit organizations by either voluntary or extorted money payments. In Johore, Muar, and Malacca, 35 property owners,

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whose estates have been contributing protection money to terrorist organizations, have been arrested.

The third, a government committee's report on the squatter problem, recommends closely supervised resettlement of the squatters on State land, Malay reservations, or forest preserves. Squatters who refuse resettlement would be subject to compulsory repatriation. Without government supervision, squatters constitute a serious security risk, since they provide ideal cover areas for the bandits--sometimes engaging in terrorist activities themselves--or, under pressure, contribute food and shelter to the bandits.

PHILIPPINES

Romulo bids for the presidency. Carlos P. Romulo, Philippine Ambassador to the UN, appears to be making an open bid for the presidency in the election to be held this fall. Since his return to the Philippines on 24 January from the Asian Conference, Romulo has been on a highly-publicized speaking tour. Many of his speeches--which deal with domestic as well as international issues--bear the earmarks of campaign promises. Romulo has often intimated his presidential aspirations privately, but his current tour marks the strongest public indication of such intentions. Romulo will leave the Philippines 16 February, but he expects to return in mid-April. Should the current rift between President Quirino and Senate President Avelino--who are now vying for control of the majority Liberal Party--be further widened, and should public opinion appear favorable, Romulo may then announce his intentions to seek the presidential nomination, possibly on the Liberal Party ticket. "B"

Although comparatively new to politics and criticized by some Filipinos for his strong pro-US inclinations, Romulo's stature as a national and international statesman has grown constantly in the Philippines during the past seven years. His work in the UN has been a source of pride to most Filipinos, and his role as one of the leading figures at the recent New Delhi conference was highly applauded and publicized by the Manila press. Although Romulo lacks a political machine, he is believed to have established important contacts with local politicians who do have organized followings.

CHINA

CHIANG's present position: CHIANG's continuing interference in the operation of the National Government indicates he is not content to remain in permanent "retirement." Despite his reported assurances to Acting President LI Tsung-jen that he would not participate in Chinese politics for the next five years, CHIANG, rather than LI, is looked to for leadership by many National Government officials and "A"

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military men. CHIANG, in fact, remains Tsungtsai (leader) of the Kuomintang, which continues to dominate the Government. In particular CHIANG's influence appears strong over the military forces in the Shanghai-Nanking area, and the Chinese Air Force as well as among Nationalist administrators in Taiwan. In Canton, the Cabinet-appointed by CHIANG - continues to act independently of LI. In southwest China, CHIANG's influence is supported by CHANG Chun, recently appointed Director of the Chungking Pacification Headquarters.

CHIANG can return to power, however, only with diminished and less widely-accepted authority. Although he is probably counting on the fact that there is no other leader of similar stature available to potential resistance forces, tendencies toward regionalism continue in many of the provinces. While CHIANG's retirement has in many ways been an astute political maneuver, his continued absence from the direct scene tends to increase the opposition to his return.

PAI Chung-hsi vies for power in South China. In the tug of war now going between the Kwangsi clique and CHIANG Kai-shek, PAI Chung-hsi is firmly behind Acting President LI Tsung-jen. PAI commands the personal loyalty of one of the few remaining Nationalist troop concentrations, presently located in the Wuhan area. Recent evidence indicates he does not intend to defend that area, should the Communists advance against Hankow in force. The withdrawal of his troops and ordnance across the Yangtze has accelerated. His eventual destination is probably his native province of Kwangsi. PAI has made somewhat excessive claims of support in South, West, and Northwest China. PAI, a good tactician himself, has accused the Generalissimo of "the worst military blunders in history" and has set about to eradicate all vestiges of CHIANG's control wherever possible. Unfortunately he can do this only in areas, save perhaps Kwangsi itself, which are in imminent danger of Communist occupation. Not all the people in the PAI-LI camp are confident of success. One official, high in the councils, feels that CHIANG, through control of the finances of anti-Communist China is capable of eventually bringing the Kwangsi clique to heel.

Formation of Northwest "anti-Communist" bloc: As previously reported, Gen. CHANG Chih-chung, Commander of Nationalist Northwest Headquarters and concurrently a member of Nanking's official peace mission to the Communists, left Nanking for the Northwest early this month. In Lanchow, CHANG called a meeting of Northwest leaders, including MA Pu-fang and MA Hung-kwei, Moslem warlord governors of Tsinghai and Ninghsia provinces. Reports of the meeting indicate that these Northwest Moslem leaders have rejected the Communists' piecemeal surrender formula, and are moving toward organization of a Northwest "anti-Communist" defense bloc. Last week, the Communist radio

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denounced CHANG Chih-chung and the Moslem leaders as "bogus" officials, and CHANG announced his resignation as a member of Nanking's official peace mission to the Communists. These developments mean that CHANG realizing the futility of dealing with the Communists as a representative of the impotent LI Tsung-jen who cannot control the recalcitrant Northwest warlords, is prepared to sever his connection with the Government.

Having ascertained the sentiments of the Northwest leaders, CHANG will presumably proceed to Tihwa to carry out his announced mission of negotiating an agreement with the USSR regarding Sinkiang. In addition to the terms previously reported, the contemplated agreement is said to provide for withdrawal of Chinese Government troops from Sinkiang. Conclusion of the agreement would result in creation of an "autonomous" regime not only for Sinkiang but probably also for parts of Ninghsia, Kansu and Tsinghai, thus allowing consolidation of Soviet control, at the expense of the Chinese Communists, in these areas deemed strategically vital to USSR security. CHANG Chih-chung, MA Pu-fang and MA Hung-kwei, so long as they do not obstruct Soviet aims, should receive Soviet guarantees of continued authority and Soviet backing against any hostile moves from the Chinese Communists.

Nationalists Favor Proposed UN Mediation: Chief Australian UN delegate Evatt's unofficial proposal for mediation in China's civil war is favored by Nationalist leaders who see in possible UN action their main means of gaining international support. At the least, a UN consideration would have propaganda value for the Nationalists and would tend to place the onus for probable refusal of UN mediation on the Communists. The National Government has previously considered initiating an appeal for UN action and may still do so under ostensible pressure from groups in the Legislative Yuan which will convene shortly. However, any official proposal for UN action will be opposed by various great powers as well as by the Chinese Communists, who have already broadcast their vociferous objections. "B"

Communist officials in Tientsin "correct" but uncooperative. US representatives, during the first three weeks of Tientsin's occupation, have found the Communist officials to be correct in their behavior, but hardly cordial. Although the various Consulates and information offices have continued to function, the Communists apparently do not intend to accord recognition to those functions until diplomatic relations are established with the governments concerned. Communications outside Tientsin are forbidden, and the Communists have taken "into custody" the US Consulate's receiving and transmitting radio. ECA supplies have also been confiscated, and the ECA program for North China has been terminated. Americans and other aliens have thus far been allowed freedom of movement, but licenses permitting the operation of automobiles have not yet been received. All former Tientsin newspapers "B"

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have ceased publication, and the entire contents of the new Communist paper, including local news notes, is censored by superior authorities elsewhere. While the Communists have assured protection to all foreigners, a number of foreign nationals have found it advisable not to protest the billeting of Communist troops in their homes and buildings. Living costs have been rising rapidly, and the Communist civil administration appears to have only rudimentary knowledge of the problems of an urban economy. The principal complaint of foreign officials is that it has been impossible to contact Communist officials locally who admit to having sufficient authority to take action.

Communists to establish Central Plains regional government. The Chinese Communists have announced that "45,000,000 people of the liberated Central Plains...will soon have a unified democratic government," elected by a "congress of people's representatives." The new government, which "in view of wartime conditions and lack of time for preparation...will be a provisional one," will administer Communist-controlled areas between the Yellow River and the Yangtze, taking in the major part (but less than half the population) of the provinces of Shensi, Honan, Hupeh, Anhwei, and Kiangsu. "A"

The Central Plains government will be the third such regional regime in Communist China. The Northeast (Manchurian) administration exercises control over perhaps 40,000,000 people. There are approximately 80,000,000 in the provinces of Chahar, Hopeh, Shansi, and Shantung, administered by the North China People's Government, proclaimed last August after the unification of two border region governments. Accepting the Communists' conservative estimate of the Communist-controlled population of the Central Plains, about two-fifths of China's people now live in Communist areas. The formation of this new regional government and the indirect admission that Communist military conquests have outrun political preparations seem to imply that it will be several months before the Communists announce, and invite international recognition of, a Communist-controlled National Government of China.

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SECTION III. B/FE ESTIMATE

PROSPECTS OF COMMUNIST NORTH CHINA TRADE

Full-scale Communist exploitation of North China's export potentialities will not be possible until a stable and effective government emerges in that area. During 1936 North China exports were 27% of China's total. Before substantial trade can develop, such a government must establish efficient transportation of commodities to port cities, a stable foreign exchange rate, and an effective customs authority to control imports. Until these conditions can be met, North China's trade will likely consist of small opportunistic "deals" arranged by or through independent Chinese merchants of Shanghai, South China and Hong Kong. A limited barter agreement with the USSR, exists as another possibility.

The USSR, Great Britain and the US each has organized trading companies (either private or governmental) which are prepared in varying degrees to satisfy the import demands and to take advantage of the export potential of North China. It appears that in the short run the Russians will pitch in but do not have much to offer. The British are best prepared but probably will not actively initiate trade. The US will perhaps be excluded.

The USSR will have the easiest immediate access to North China. During 1948, Soviet trade with the Chinese Communists in Manchuria is believed to have totalled from US \$20 to \$30 million. The Communist-developed Northeast General Trading Bureau, organized to handle exports from Manchuria to the USSR, may set a pattern for the newly opened North China General Trading Bureau. Although the USSR is the country most likely to receive ready cooperation from such bureaus in the next few months, the USSR trading representative in Tientsin is reported to have been unable to arrange any sort of transaction there as yet.

The British Government has a passive policy of strict neutrality towards China and has, in effect, told British firms with interests in China that whatever they do is all right but that the UK cannot help them officially except by being cold to the National Government. The two large shipping and trading firms, Jardine Matheson Company and Butterfield & Swire, are currently engaged in large and profitable trade in Southeast Asia. Because of their extensive Asia traffic, these companies will be in a position to resume China operations on a large scale at any time. During the interim period of instability neither major company plans to go out of its way to trade with the Communists, chiefly because the British feel it will be fruitless to try to negotiate

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with the Communists, although their ships may be engaged as carriers. Despite the coolness of the major companies, small, independent firms in Hong Kong (mostly Chinese but including many Western nationalities) will probably engage in an energetic traffic with North China, at Shantung ports as well as at Tientsin. This trade will be largely uncontrolled by the Communists, just as the small traffic that now exists with Manchuria and the Shantung littoral is unregulated, and hence will be extremely attractive to speculative traders, especially dealers in gold, opium and other illegal commodities.

The US merchants in China, like the major British firms, see no way to initiate business during the interim. The Americans have no closer "entrepot" than San Francisco at which to await a stable Communist China where normal business can resume. While there are many special commodities needed by the Communists which only the US can provide, the bulk of consumers' goods in demand in North China can be easily supplied by the British. In view of the established network of British commercial agents throughout the provinces of North China and the absence of a similar US net, it appears that the British will be favored when business becomes possible. The assertion in some quarters that the Communists are more anti-American than anti-British is another consideration in prejudicing the position of American businessmen in North China. The future position of the USSR in North China is another indeterminate which may or may not hurt the chances of the UK and US. To the Chinese Communists, US, UK and USSR representatives may all be "foreign devils."

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